

Chris Netram

*Vice President,
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July 17, 2018

Nicole Puccio
Branch Chief
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-2521

Re: File No. 34-83463: *Draft 2018-2022 Strategic Plan for Securities and Exchange Commission*

Dear Ms. Puccio:

The National Association of Manufacturers (NAM) appreciates the opportunity to provide comment to the Securities and Exchange Commission (SEC) on File No. 34-83463, the Commission's draft strategic plan for fiscal years 2018 through 2022.

The NAM is the largest industrial trade association in the United States, representing small, medium, and large manufacturers across a wide range of economic sectors that collectively employ more than 12 million Americans and contribute more than \$2 trillion to the U.S. economy each year.

Manufacturing is a capital-intensive industry, requiring significant investments for equipment purchases and research and development. Manufacturers have looked to a variety of sources, including the capital markets, to finance these pro-growth activities, which set the stage for economic growth, innovation, and increased employment. By offering shares to the public, manufacturers provide every American with the opportunity to participate in the industry's success, often through shares held by 401(k) and pension plans. As such, manufacturers appreciate the SEC's continued focus, via the draft strategic plan, on both capital formation and investor protection – each a vital component of the industry's success on the public market.

The capital committed to manufacturers by Main Street investors is used to fund research and development and support job creation. These activities set the state for future manufacturing growth and support investment returns for families saving for a new home, a child's education, or a comfortable and secure retirement.

It is encouraging that the first goal highlighted in the draft strategic plan is to “focus on the long-term interests of our Main Street investors.” As the SEC finalizes the draft strategic plan, and takes steps toward achieving the goals laid out therein over the next five years, the NAM urges it to prioritize the needs and voices of Main Street investors over those of politically-motivated activists and other third parties that all too often drown them out. To achieve that goal, we urge the SEC to prioritize the following reforms:

1. Proxy Advisory Firm Oversight

The NAM supports SEC oversight of proxy advisory firms in order to ensure a fair and transparent process by which these firms develop recommendations. Increased transparency, improved

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dialogue with issuers, and disclosure and mitigation of conflicts of interest would benefit investors and issuers alike – ultimately preventing proxy firms from drowning out Main Street investors and leading to better corporate governance policies at America’s public companies.

Proxy advisory firms have risen to prominence in the wake of increased institutional ownership of American stocks. These unregulated firms have enormous influence over the corporate governance policies of U.S. public companies – decisions that impact the direction of a business and ultimately affect millions of Main Street investors’ retirement accounts. Yet they are not subject to regulatory oversight and offer little in the way of transparency or dialogue with the issuers impacted by their recommendations. Their activities effectively constitute a black box quasi-regulatory regime that imposes a one-size-fits-all approach to corporate governance on America’s public companies.

In addition, proxy advisory firms have *prima facie* conflicts of interest. Of the two leading firms in the space, one is owned by an investor that sponsors proxy proposals, while the other operates a consulting business that counsels companies on the very corporate governance policies on which the advisory side of the firm makes recommendations. Proxy firms also engage in “robo-voting” on behalf of their clients, meaning that their one-size-fits-all vote recommendations often go straight into the proxy ballot box without input from investment managers or the Main Street investors they represent.

As *de facto* regulators over company policies that impact millions of jobs and trillions of dollars in retirement savings, the NAM strongly believes that proxy advisory firms and their recommendation processes are in desperate need of oversight and reform.

2. Politically-Motivated Shareholder Proposals

In recent years, manufacturers have experienced a rise in politically-motivated shareholder activism that seeks to force companies to act on issues unrelated to either their core business or investor returns. The proxy ballot, which was designed for shareholders to constructively engage with company management, is now being abused by a vocal minority of activists to pursue political agendas on issues that may bear little relation to an issuer’s core business, and over which a company may have no control.

A recent academic study co-authored by Professor Joseph Kalt of Harvard University found that political proposals detract from shareholder value, contradicting activists’ claims that such proposals are beneficial to Main Street investors.¹ The study also highlights the significant capital and time that a company must expend to engage on activist proposals – an unnecessary diversion of resources from the company’s core mission.

The NAM encourages the SEC to consider reforms to the shareholder proposal process in order to preserve the right of Main Street investors to engage with management on important corporate governance issues while limiting the impact of activists with political agendas. In particular, manufacturers support reforms to the resubmission thresholds in Exchange Act Rule 14a-8(i)(12).

Under the current rule, failed shareholder proposals are guaranteed a spot on the next year’s proxy ballot if they garner only three percent of the investor vote, with the threshold increasing to six percent after two votes and ten percent after three or more votes. By guaranteeing resubmission for failed proposals with overwhelming shareholder opposition, these outdated thresholds divert

¹ Joseph P. Kalt, L. Adel Turki et al., *Political, Social, and Environmental Shareholder Resolutions: Do They Create or Destroy Shareholder Value?* June 2018. http://www.shopfloor.org/wp-content/uploads/2018/06/nam_shareholder_resolutions_survey.pdf (this study was commissioned by the NAM).

management time and company resources, and prioritize the whims of a small set of activist investors over the good of the company and the broader shareholder base.

The continued resubmission of “zombie” proposals distracts from legitimate issues on the proxy ballot and ignores the wishes of the 90 percent or more of investors who rejected them in the first place. The NAM urges the SEC to prioritize the needs of Main Street investors and implement increased resubmission thresholds.

3. Providing Useful Information to Shareholders

Main Street investors are ill-served by disclosure requirements that do not meaningfully contribute to the mix of material, decision-useful information that they need to make investing choices.

Burdensome regulations like the pay ratio² and conflict minerals³ reporting requirements (and, if finalized, the proposed pay versus performance rule⁴) divert capital from company growth with no corresponding benefit to shareholders. Manufacturers believe in the importance of material disclosures to investors, but these costly requirements provide no insights into a company’s business or the risk-benefit balance of an investment – and ultimately distract a company from long-term value creation for Main Street investors.

Going forward, we urge the SEC to consider the costs that burdensome, non-material disclosure requirements impose on issuers – a capital diversion that does not benefit investors – and how reducing compliance costs enable Main Street investors to benefit from more investment options on the public market.

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The NAM strongly supports the emphasis that the Commission’s draft strategic plan places on Main Street investors, and we encourage the SEC to remain focused on the impact that market forces – including its own rules and regulations – can have on millions of middle-class American investors and the businesses in which they invest.

On behalf of the NAM and the 12 million men and women that make things in America, thank you for your attention to these concerns.

Sincerely,



Chris Netram
Vice President, Tax & Domestic Economic Policy

² The NAM submitted comments in response to then-Acting Chairman Piwowar’s reconsideration of the pay ratio rule’s implementation, which are available at <https://www.sec.gov/comments/pay-ratio-statement/cil3-1662912-148892.pdf>.

³ The NAM submitted comments supporting the SEC’s reconsideration of the implementation of the conflict minerals rule, which are available at <https://www.sec.gov/comments/statement-013117/cil2-1645536-148285.pdf>.

⁴ The NAM’s comments on the SEC’s pay versus performance proposal are available at <https://www.sec.gov/comments/s7-07-15/s70715-40.pdf>.